

OPEN MEETING



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ORIGINAL

**MEMORANDUM
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Arizona Corporation Commission

DOCKETED

FEB 24 2014

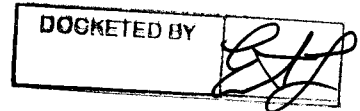
TO: THE COMMISSION

2014 FEB 24 P 2:07

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: February 21, 2014



RE: IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, LLC FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES FOR CUSTOMERS WITHIN PIMA COUNTY, ARIZONA
(DOCKET NO. W-03718A-09-0359)

I. Introduction

Sahuarita Water Company, LLC ("Sahuarita" or "Company") is a Class B public service corporation. The Company is headquartered in Sahuarita, Arizona, and its service area encompasses that area of Pima County, Arizona. In the test year, ending December 31, 2008, the Company served an average of 4,524 water customers.

The Company has filed a motion as described below arising from the Arizona Corporation Commission's ("Commission") policy change regarding income taxes.

II. Background

On February 11, 2011, the Commission issued Decision No. 72177 which established the current rates for Sahuarita. The Decision also authorized the Company to seek an allowance for income taxes generated as a result of its operations if the Commission changed its policy regarding the treatment of income taxes for subchapter S corporations. On February 21, 2013, in Decision No. 73739, the Commission adopted a policy allowing every utility entity, other than subchapter C corporations and tax-exempt entities, to seek to include in its cost of service an income tax allowance based on the lower of comparable subchapter C corporate income tax expense or the combined personal income tax obligation created by the distribution of the utility's profits.

III. Rate Increase

On August 19, 2013, the Company filed a motion to amend Decision No. 72177 pursuant to Arizona Revised Statutes ("A.R.S.") § 40-252. The Company has included full schedules that appropriately fulfill the new income tax policy requirements and the resulting recognition of an income tax allowance. The increase to the revenue requirement for water customers is \$178,328, or an increase of 8.05 percent. Staff concurs with these amounts because they comply with the Commission's policy, and they result in just and reasonable rates based on that policy. Staff has

confirmed that the amount the Company is seeking to collect for income taxes is less than it would be had the Company elected to be taxed as a stand-alone C corporation.

In its filing, the Company is proposing no changes to its fair value rate base, which is \$8,805,561. Adopting the increase proposed by the Company would increase the Company's revenue requirement to \$582,666. The fair value rate of return ("FVROR") remains at 9.20 percent.

The Company has proposed a rate design that includes both an increase to the monthly minimum charge and an increase to the commodity charge.

Staff concurs with the Company on its proposed rate design. For informational purposes, the typical bill impact analysis for a 5/8-inch meter residential customer using the average of 5,424 gallons per month is as follows:

Current Average Bill:	\$31.48
Proposed Average Bill:	\$33.74
Average Increase:	\$ 2.26 or 7.20%.

IV. Follow-Up Rate Case

In order to limit the time span between rate cases to six years, Staff recommends that the Company be ordered to file a full rate case application no later than June 30, 2015, using a 2014 calendar year test year.

V. Notice

Staff has asked the Company to provide the notice attached as Attachment 1 to all of its customers by February 27, 2014. Staff has also asked the Company to provide the attached notice to all parties to this case by February 27, 2014.

VI. Conclusions and Recommendations

Staff concludes that the Company has duly filed the appropriate request to amend Decision No. 72177 for an increase in water rates.

Staff recommends approval of the increase in revenue requirement requested by the Company in the amount of \$178,328.

Staff further recommends approval of the associated rate design proposed by the Company in its application.

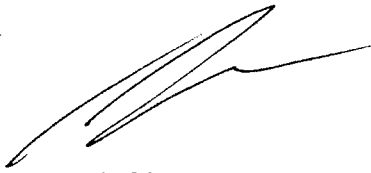
Staff further recommends that the Company be ordered to file a full rate case application by no later than June 30, 2015, using a 2014 calendar year test year.

THE COMMISSION

February 21, 2014

Page 3

Staff further recommends that the Company be ordered to file a full rate case application by no later than June 30, 2015, using a 2014 calendar year test year.

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name Steven M. Olea.

Steven M. Olea
Director
Utilities Division

SMO:JLK:sms\WVC

ORIGINATOR: Jorn Keller

Sahuarita Water Company, LLC

W-03718A-09-0359

Attachment 1

NOTICE
PUBLIC NOTICE OF PUBLIC COMMENT MEETING AND OPEN MEETING

Regarding

Sahuarita Water Company's Petition to Amend Decision No. 72177 pursuant to AR.S. § 40-252 (Docket No. W-03718A-09-0359)

Summary

On February 11, 2011, the Arizona Corporation Commission issued Decision No. 72177, which established the current rates for Sahuarita Water Company, LLC, ("Sahuarita" or "Company"). This Decision amended the rates that had been set for Sahuarita in Decision No. 59431, issued December 20, 1995. Decision No. 72177 also provided that Sahuarita could seek an allowance for income taxes generated as a result of its operations. On February 21, 2013, in Decision No. 73739, the Commission adopted a policy that allows all utility entities, other than subchapter C corporations and tax-exempt entities, to include in the cost of service an income tax allowance based on the lower of comparable subchapter C corporate income tax expense or the combined personal income tax obligation created by the distribution of the utility's profits. On August 19, 2013, Sahuarita filed a motion pursuant to A.R.S. 40-252 seeking recovery of an allowance for income taxes.

Public Comment Meeting and Open Meeting

This matter is currently scheduled for an opportunity to be heard at a Commission **Open Meeting** on **March 11 and 12, 2014, at 10:00 a.m.** at the Commission's offices located at 1200 West Washington Street, Phoenix, Arizona 85007. Please check the Commission's Open Meeting schedule at http://www.azcc.gov/Divisions/Administration/Meetings/Agendas/2014/2014_agendas.asp in case the Open Meeting is rescheduled or this matter is postponed to a later date.

Written public comments may be submitted by mailing a letter referencing Docket No. W-03718A-09-0359 to the Arizona Corporation Commission, Consumer Services Section, 1200 West Washington, Phoenix, Arizona 85007, or by e-mail. For a form to use and instructions on how to e-mail comments to the Commission, go to <http://www.azcc.gov/Divisions/Utilities/forms/PublicCommentForm1.pdf>.

If you require assistance to provide public comment, you may contact the Consumer Services Section at 602-542-4251 or 1-800-222-7000.

Rates

Under the rates approved in Decision No. 72177, a residential customer with a 5/8 inch meter and average usage of 5,424 gallons per month currently pays \$ 31.48 per month. Under the Company's request, that amount would increase by \$2.26 (7.20 percent) to \$33.74. **The actual change in rates for individual customers would vary depending upon the type and quantity of service provided. You may contact the Company at 520-399-1105 and request a calculation of the impact of its proposals on your account.**

THE COMMISSION

February 21, 2014

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The proposed rate changes requested by the Company's Motion to Amend Decision 72177 are summarized in the following table:

<u>Water Monthly Minimum Charge</u>	<u>Current Rates</u>	<u>New Rates</u>
5/8" Meter	16.00	17.15
3/4" Meter	25.00	26.80
1" Meter	40.00	42.88
1 1/2" Meter	80.00	85.75
2" Meter	128.00	137.20
3" Meter	256.00	274.40
4" Meter	400.00	428.75
6" Meter	800.00	857.50
<u>Commodity Charge (Per 1,000 Gallons)</u>		
All Current Commodity Charges are increased by approximately \$0.25/per 1,000 gallons		

The Commission is not bound by the proposals made by the Company in its Motion; therefore, **the final rates approved by the Commission may be higher or lower than the rates requested by Sahuarita.**

How You Can View or Obtain a Copy of the Petition

Copies of the Motion are available from Sahuarita Water Company at 725 W. Via Rancho Sahuarita Rd., Sahuarita, Arizona 85269 and are available for public inspection during regular business hours at the Commission's Docket Control Center at 1200 West Washington, Phoenix, Arizona. The Motion may also be viewed on the Commission's website (www.azcc.gov) using the e-Docket function.

ADA/Equal Access Information

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Shaylin Bernal, e-mail sbernal@azcc.gov, voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **BOB STUMP**

Chairman

3 **GARY PIERCE**

Commission

4 **BRENDA BURNS**

Commissioner

5 **BOB BURNS**

Commissioner

6 **SUSAN BITTER SMITH**

Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
9 OF SAHUARITA WATER COMPANY, LLC)
10 FOR A RATE INCREASE.)
11)

DOCKET NO. W9-03718A-09-0359

DECISION NO. _____

ORDER

12
13 Open Meeting
14 March 11/ 12, 2014
15 Phoenix, Arizona

16 BY THE COMMISSION:

17 **FINDINGS OF FACT**

18 1. Sahuarita Water Company, LLC ("Sahuarita" or "Company") is a Class B public
19 service corporation. The Company is headquartered in Sahuarita, Arizona, and its service area is
20 limited to Pinal County, Arizona. In the test year, ending December 31, 2008, the Company
21 served an average of 4,524 water customers.

22 2. The Company has filed a motion as described below arising from the Arizona
23 Corporation Commission's ("Commission") policy change regarding income taxes.

24 **Background**

25 3. On February 11, 2011, the Commission issued Decision No. 72177, which
26 established the current rates for Sahuarita. This decision amended the rates that had been set for
27 Sahuarita in Decision No. 59431, issued December 20, 1995. Decision No. 72177 also provided
28 that Sahuarita could seek an allowance for income taxes generated as a result of its operations if

...

1 the Commission changed its policy regarding the treatment of income taxes for subchapter S
2 corporations and LLCs.

3 4. On February 21, 2013, in Decision No. 73739, the Commission adopted a policy
4 allowing every utility entity, other than subchapter C corporations and tax-exempt entities, to seek
5 to include in its cost of service an income tax allowance based on the lower of comparable
6 subchapter C corporate income tax expense or the combined personal income tax obligation
7 created by the distribution of the utility's profits.

8 5. On August 19, 2013, the Company filed a motion to amend Decision No. 72177
9 pursuant to Arizona Revised Statutes ("A.R.S.") § 40-252. The Company has included full
10 schedules that appropriately fulfill the new income tax policy requirements and the resulting
11 recognition of an income tax allowance. Staff has confirmed that the amount that the Company is
12 seeking to collect for income taxes is less than it would be if the Company had elected to be taxed
13 as a stand-alone C corporation. The increase to the revenue requirement is \$178,328, or an
14 increase of 8.05 percent. Staff concurs with this amount as it complies with the Commission's
15 new policy and they will therefore result in just and reasonable rates, based on this policy.

16 6. In its filing, the Company proposes no change to its fair value rate base, which is
17 \$8,805,561. Adopting the increase proposed by the Company would increase the Company's
18 revenue requirements to \$582,666. The fair value rate of return remains at 9.20%.

19 7. Decision No. 72177, authorizing Sahuarita's present rates, was issued on February
20 11, 2011, and it was based on a 2008 test year. Staff recommends that the Company be ordered to
21 file a full rate case application no later than June 30, 2015, using a 2014 calendar year test year.

22 **Notice**

23 8. Staff asked the Company to provide the notice attached as Attachment 1 to the Staff
24 Memorandum to all of its customers and all parties to this case by February 27, 2014.

25 **Rate Design**

26 9. The Company has proposed a rate design that includes both an increase to the
27 monthly minimum charge and an increase to the commodity charge.

28 ...

10. Staff concurs with the Company's proposed rate design. For informational purposes, the typical bill impact analysis for a 5/8-inch meter residential customer using the average of 4,524 gallons per month is as follows:

Current bill: \$31.48
Proposed bill: \$33.74
Increase: \$2.26 or 7.20%.

Staff Recommendations

11. Staff recommends approval of the rate increase requested by the Company in the amounts of \$178,328.

12. Staff further recommends approval of the associated rate design proposed by the Company in its application.

13. Staff further recommends that the Company be ordered to file a full rate case application by no later than June 30, 2015, using a 2014 calendar year test year.

CONCLUSIONS OF LAW

1. Sahuarita Water Company, LLC is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250 and 252.

2. The Commission has jurisdiction over the Company and over the subject matter of the application.

3. Notice of the proceeding and an opportunity to be heard has been afforded in the manner prescribed by law.

4. For the purposes of evaluating this application, the information set forth in Finding of Fact No. 6 serves as appropriate fair value information for the Commission's consideration.

5. The Commission may determine appropriate ratemaking classifications pursuant to Article XV, Section 3 of the Arizona Constitution, and the rates proposed herein are just and reasonable.

6. Decision No. 72177 is hereby modified to provide for recovery of income taxes through rates.

7. Staff's recommendations are reasonable and hereby approved.

...

ORDER

IT IS THEREFORE ORDERED that Decision No. 72177 is hereby modified to permit Sahuarita Water Company, LLC to recover income taxes as requested in its August 19, 2013 motion.

IT IS FURTHER ORDERED that the recommendations of Staff discussed in Findings of Fact 11 through 13 are reasonable and are hereby adopted.

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Decision No. _____

1 IT IS FURTHER ORDERED that Sahuarita Water Company, LLC is hereby authorized
2 and directed to file with the Commission, on or before April 1, 2014, revised schedules of rates
3 and charges consistent with the discussion herein.

4 IT IS FURTHER ORDERED that the new rates and charges approved herein shall become
5 effective April 1, 2014.

6 IT IS FURTHER ORDERED that this decision shall become effective immediately.

7
8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

9
10 _____
11 CHAIRMAN

COMMISSIONER

12
13 _____
14 COMMISSIONER

COMMISSIONER

COMMISSIONER

15 IN WITNESS WHEREOF, I, JODI JERICH, Executive
16 Director of the Arizona Corporation Commission, have
17 hereunto, set my hand and caused the official seal of this
18 Commission to be affixed at the Capitol, in the City of
19 Phoenix, this _____ day of _____, 2014.

20 _____
21 JODI JERICH
22 EXECUTIVE DIRECTOR

23 DISSENT: _____

24 DISSENT: _____

25 SMO:JLK:lhmvFW
26
27
28

1 SERVICE LIST for: Sahuarita Water Company, LLC
2 DOCKET NO. W-03718A-09-0359

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6 Phoenix, Arizona 85016

7 Arizona Reporting Service, Inc.
8 2200 N. Central Ave., S. 502
9 Phoenix, Arizona 85004

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12 Tubac, Arizona 85646

13 Mr. Steven M. Olea
14 Director, Utilities Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007

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